

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

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DATE: June 7, 2011

TO: Low Income Housing Tax Credit Stakeholders

FROM: Rose Guerrero, Compliance Section Chief

RE: 2011 Operating Cost Minimums and Operating Cost Minimums Methodology

The California Tax Credit Allocation Committee (TCAC) maintains a project operating cost dataset to derive average operating costs within California tax credit projects. TCAC began collecting operating cost data for tax credit projects beginning in 2004. The dataset size has expanded significantly as our portfolio has grown in recent years.

**Data Collection**

Annually TCAC staff collects operating costs for all California tax credit projects including projects in their initial federal compliance period as well as projects in the extended use period. This allows TCAC to accurately determine operating costs and identify trends in the California portfolio, which consists of over **2,800** tax credit projects.

The operating cost dataset contains the most recent five-years of operating costs as reported by the project sponsor for each tax credit project. Historically, operating costs were reported based on unaudited financial statements. TCAC began requiring project sponsors to submit operating costs based on audited financial statements beginning in 2009 (2008 Operating Cost dataset) and adjusted the submittal due date to May of each year. The operating costs are submitted via the Annual Operating Expense (AOE) Report, which is generally due to TCAC by the 3<sup>rd</sup> week in May of each year and staff reviews and uploads each transmittal into TCAC's database.

In the past few years reporting compliance has increased, adding to the operating cost dataset. The continued growth of TCAC's portfolio has enlarged the number of records added annually, beyond the number of older records that are excluded each year. This year TCAC collected operating costs for 2,242 projects, which were added to the dataset while 985 older records were dropped off (2004 operating costs), resulting in a net addition of 1,257 records. The list below shows the operating cost dataset (95% of full sample) size during the last four years:

### **Dataset Summary**

- 2006 Operating Cost Dataset - 4,546 records (385,740 units)
- 2007 Operating Cost Dataset - 4,949 records (439,934 units)
- 2008 Operating Cost Dataset - 6,499 records (576,943 units)
- 2009 Operating Cost Dataset - 7,657 records (680,697 units)

### **Analysis:**

After all projects have submitted operating cost data for a given year, staff analyzes the detailed operating costs to determine average operating costs statewide, regionally, and for each housing type. Staff removes clearly erroneous submittals from the dataset. Next, staff deletes the oldest year's entries and includes the current year's entries to establish an updated five-year dataset. Staff then removes the high and low outliers, leaving a 95 percent sample with a lower standard deviation. The data reveals significant regional differences in average costs and among the various housing types (senior, large family, etc.) within a region.

### **Calculations:**

In developing the final regional operating cost numbers for 2011 staff used averages for all project types within a region, developed "multipliers" for the various housing types based on the overall relationship shown regionally versus statewide, and applied those "multipliers" to each region's average per-unit operating cost. Finally, using the operating cost averages derived from the 95% dataset, staff computes 90% of the mean for each region and housing type to derive the minimum average operating costs. From this calculated figure, \$100 was added to the minimum for a project with an elevator, \$100 was subtracted from the minimum for a project without an elevator. The final 2011 Operating Cost Minimums are attached for your review and CTCAC will be instituting these updated numbers beginning with applications that will be submitted in the first round of 2012.

### **Findings:**

Operating costs have increased during the past three years and the categories that contributed to the increases in annual operating costs are utilities, water and sewer, maintenance, payroll/payroll taxes and insurance. This may be attributable to the fact that a large majority of the developments are older and experiencing higher operational costs. Staff noted operating cost categories experiencing reductions included administrative fees, and property management fees. However, these reductions were minimal compared to the increases in other operating cost factors during this three-year period.

Anecdotally, TCAC has received some confirmation that low income housing tax credit projects in California are experiencing higher operational costs. One project sponsor with a portfolio of tax credit projects in the Capital and Northern region has indicated 2010 actual expenses for his portfolio were in line with the TCAC calculated regional average operating cost of \$4,687 per unit per year. The sponsor confirmed that utility costs, and property insurance costs within his portfolio align with average operating costs that are

experienced within the TCAC portfolio with some variance depending on housing type, project size, and geographic location. The sponsor indicated operating costs for tax credit projects have increased as a result of increased costs for repair and maintenance; utility rate increases; benefit costs for site employees; training costs for site management personnel; administrative costs; and negotiated obligations to local communities in lieu of traditional property taxes (Payments in Lieu of Taxes). Another project sponsor operating senior projects indicated that 2010 actual expenses for senior developments ranged between \$3,311- \$4,195 per unit based on geographic location which is consistent with TCAC's data analysis.

At a future date this year, TCAC will be convening a stakeholder workgroup made up of project sponsors and management agents to determine operating costs and identify operating cost trends for Tax Credit Projects in California, and looks forward to input from our stakeholder community and business partners. TCAC welcomes feedback on how your project operating costs compare to TCAC's data.

If you have any questions about this memo please contact TCAC Analyst Elizabeth Gutierrez at 916-654-6340 or via email at: [egutierrez@treasurer.ca.gov](mailto:egutierrez@treasurer.ca.gov).